

GE's Man in Myanmar Sees Asia's Best Currency Boosting Economy

by Netty Idayu Ismail and Lilian Karunungan

May 31, 2016, 4:54 PM PDT June 1, 2016, 12:45 AM PDT

- Kyat overtakes Japanese yen as Asia's best performer in 2016
- Inflows boost currency after Aung San Suu Kyi's election win

Myanmar's kyat has become Asia's top currency of 2016, a clear sign the nation is starting to emerge from decades of isolation.

Spurred by Aung San Suu Kyi's victory in the country's first open elections since 1990, the kyat is up more than 10 percent, finally on track for an annual gain after falling every year since a managed float in 2012.

A series of reforms has revitalized Myanmar's economy and society since the military junta was officially dissolved in 2011, and the nation's opening-up has accelerated since Suu Kyi's National League for Democracy party won elections in November. Cash is pouring in now, laying the foundations for further appreciation.

For Andrew Lee, who returned to the country of his birth four years ago to open General Electric Co.'s business there, the kyat's rally is proof that he made the right choice. A stronger currency is essential for the burgeoning economy, he says, making imports cheaper while reducing the cost of funding government infrastructure projects in dollars.

"The appreciation is good for the economy," said Lee, who moved to the U.S. with his family aged 12 in 1979, when Myanmar was in the grip of a military dictatorship. "We're optimistic about the new government. We know there's still a lot of work to be done on the country's infrastructure."

Holding the Reins

While Suu Kyi herself is constitutionally barred from the presidency, she's widely seen as the power behind the throne, and the NLD's first act on taking power in March was to grant her the new role of "state councilor," with the formal power to advise the new government. The daughter of 1940s independence leader Aung San, her life story was the subject of the 2011 film, The Lady.

New leadership is helping inspire confidence. The Asian Development Bank predicts Myanmar's economy will grow faster than its neighbors, with expansion exceeding 8 percent in 2016 and early 2017 as the nation starts to attract the \$80 billion it needs for power, transport and technology projects through 2030.

Foreign direct investment increased by \$1.48 billion to \$9.48 billion in the financial year ended March 31, according to a government-controlled newspaper. Inflows are set to increase after the U.S. lifted sanctions on 10 state-owned enterprises and banks in May, though other trading restrictions remain in place.

More Investment

“There could be a lot of FDI coming into the country as soon as the sanctions are removed, in which case we would see the kyat strengthen,” said Nicolas Nguyen, country manager for Myanmar at investment firm Rising Dragon, who moved to Yangon three years ago.

Asian banks see Myanmar’s currency continuing to beat its Asian peers. Kuala Lumpur-based Malayan Banking Bhd. sees the kyat strengthening about 19 percent toward a two-year high of 1,000 per dollar by early 2017, from 1,186.3 on Wednesday. New Crossroads Asia, an investment advisory business in Yangon, predicts it will reach 1,150 within the next three months as prices climb for commodities Myanmar exports such as gas, wood products and legumes.

Kyat’s Rally

The kyat is rebounding from a 21 percent loss in 2015 and a record-low of 1,344 per dollar reached on Jan. 25 this year. It’s also benefiting from government measures to prevent the so-called dollarization of the economy, including restrictions preventing hotels, restaurants and other businesses from charging in the U.S. currency.

The Central Bank of Myanmar wants a stable currency market, according to Win Thaw, director general and head of the foreign-exchange department at the monetary authority.

Not everyone’s so optimistic about the kyat. BMI Research, part of Fitch Group, is skeptical of the rally and predicts that rising inflation, a widening current-account deficit and expansionary fiscal policy will erode the currency’s value.

‘Overheating Potential’

“Over the medium term, we’re not particularly constructive on the kyat,” said Andrew Wood, Singapore-based head of Asia country risk at BMI, who predicts a retreat to 1,310 per dollar by year-end. “It’s not the growth that hurts the currency, but the significant potential for overheating.”

In a sign of confidence, though, businesses including supermarkets have started giving discounts on imported goods such as toothpaste, cookies and washing machines, said Vijay

Dhayal, vice president of New Crossroads Asia, founded by Billy Selig, a former managing director at Cantor Fitzgerald LP. Last year, they raised prices by as much as 30 percent.

"The worst is over for the kyat," Dhayal said from Yangon. "There's a whole positive sentiment about the new government, that the economy will grow and they will be more liberal toward foreign investments."

Read more at: <https://www.bloomberg.com/news/articles/2016-05-31/asia-s-best-currency-gain-marks-myanmar-escape-from-dictatorship>